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Central Intelligence Agency, Intelligence Memorandum No. 127:
Significance of Western European Exports to the Soviet Bloc

1. Section 117(d) of the Foreign Assistance Act requires ECA to screen the exports of the participating countries to non-participating European countries, which include the Soviet Bloc. ECA is also concerned with the trade between the participating countries and the Soviet Bloc because the Soviet Bloc can supply raw materials urgently required for achieving the objectives of the ERP. Moreover, a high level of trade between the two areas is a necessary condition for restoring equilibrium in the balances of payments of the participating countries, since the Soviet Bloc is an alternative source of supply of commodities now being purchased in the dollar areas. The Soviet Bloc is also a principal supplier of chrome and manganese, on which the industrial economies of Western Europe and the United States are heavily dependent. In order to obtain information for use in determining ECA economic policy towards the Soviet Bloc, ECA requested CIA to prepare a report on certain aspects of economic relations between Western and Eastern Europe. In preliminary discussions with CIA, ECA outlined its conception of the scope of the report, and general agreement was reached on the principal problems toward which the analysis of the report should be directed. Despite its preliminary nature, CIA Memorandum No. 127 has provided ample supporting evidence for the tentative solution of certain important questions. The following comments are made with a view to specifying the domain of definition of a future report so that it will be of the greatest possible use to the ECA.

2. The report adequately demonstrates that the productivity of the economies of the Soviet Bloc would be impaired if exports to the Soviet Bloc from the Western countries of certain types of equipment, manufactures and materials are quantitatively restricted or embargoed. A considerable part of the report is devoted to the analysis of the relative significance of particular Western exports to particular members of the Soviet Bloc as well as to the Soviet Bloc as a whole. The report is successful in providing in concrete terms an analysis of the important general statement that the Soviet Bloc is dependent on the Western industrial economies.

3. Several paragraphs of the report are devoted to showing that the Soviet Union wields considerable economic power in the various satellite countries, with the implication that the Soviet Union is the chief beneficiary of trading within the Soviet Bloc. Little consideration is given to the fact that, apart from unilateral reparations deliveries, the trade between the Soviet Union and the satellites results in mutual benefit. A consequence of the large degree of economic power which the CIA attributes to the Soviet Union is the belief that the Soviet Union would have priority over essential machinery, spare

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parts and industrial raw materials imported by the Bloc from Western Europe. It is by no means clear that all the satellite countries would be willing to transship to the Soviet Union vitally needed equipment obtained from the West under the terms of trade agreements. Moreover, it has not yet been established that the Soviet Union exercises any firm control on the lists of commodities traded by the Soviet Bloc countries or the terms at which they are traded.

4. The report does not mention a corollary to the discussion of the previous paragraph. The Soviet Union at the present time is a supplier of machinery and equipment to the Soviet Bloc. In the event of a Western embargo of exports to the Soviet Bloc, the Soviet Union could make a net contribution to the economies of Eastern Europe in the form of machinery and equipment, especially the simpler types required for the earlier stages of industrial development. It should not be overlooked that an imperialist power can often increase its productivity by exporting capital for the development of the resources of "colonial" areas.

5. On page 5, the report categorically states that Titosque defections should not be anticipated if exports to the satellites of essential equipment are restricted and economic distress consequently increases. Since no warrant for this statement is evident in the report, further analysis would be desirable in order to determine whether positive centrifugal incentives from the West would not deflect one or more satellites from their present orbits, or at least weaken the attractive power of the Soviet Union. Such an analysis might take into account the facts that the satellites are national states subject to the diverse influences of national sentiment, that political leaders may have more national loyalty than Moscow loyalty, and that economic gains may accrue to the national states if they pursue an independent policy which would free them from the onerous economic commitments which the report attributes to their economic relations with the Soviet Union.

6. Since ECA policy supports a large volume of trade between Eastern and Western Europe within the limits of the national security objectives of the United States, it is necessary to ask for a more precise analysis of the key sentence on page 7: "The primary economic goal of the USSR is the development of its economic potential for war". Two essential dimensions appear to be lacking in this statement. In the first place, the dimension of intent is not clearly specified. It would seem desirable that the "economic potential for war" be defined to state whether it means preparation for an offensive war, a defensive war, or merely the continuation over the long run of the "cold war". It is perhaps meaningless to discuss the ultimate intent of the Soviet leaders. It is, however, possible to demonstrate that the primary economic goal of the USSR is not the development of its economic potential for war. The declared and self-evident goal of the USSR has been clearly defined in all the Five Year Plans and consists in the industrialization and reconstruction of the Soviet economy on the basis of the most advanced technical knowledge. Among

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the many stated objectives to be achieved by such industrialization are the economic self-sufficiency of the Soviet Union, the increase of its defensive power and the raising of the standard of living of the Soviet people. It is, of course, true that ever since the Soviet Regime came to power the Soviet leaders have stressed the need to provide for the defense of the Soviet Union. However, the fact that the Soviet Government has restricted the rates of growth of consumers' goods industries and has maintained rapid rates of growth of the heavy industries does not essentially imply that the development of war potential is the primary goal. Since the Soviet Union was, until recently, a backward, predominantly agrarian economy, it was necessary for Soviet planners to concentrate on the construction of heavy industry in order to lay the basis for a higher standard of living as well as to provide for national defense. The emphasis on the construction of heavy industry, therefore, served simultaneously the ends of welfare and warfare. Only if an estimate of an "excessive" concentration on the production of direct military items—military planes, tanks, etc.—were available, would it appear correct to state that the primary goal of the Soviet Union was the development of its economic potential for war.

7. The statement also lacks a time dimension. In the most general sense, any economy which undergoes industrialization adds to its war potential. However, unless a time limit of some sort is fixed for the period of direct preparation for a shooting war the statement is almost meaningless. Moreover, the statement does not take adequate account of the perceptive powers of the Soviet planning authorities. It would appear that a valid assumption might be that the Soviet Union would not be prepared to wage an offensive war for many years to come. A perusal of the planned objectives under the Fourth Five Year Plan should be sufficient evidence of the weakness of the Soviet economy as compared to that of the Western countries, including the United States. The CIA report, in itself, is a careful brief on the many defects of the Soviet industrial potential for war.

8. If it can be demonstrated that the principal objective of the Soviet Union at the present time is preparation for the launching of war, then the basic policy which ECA has consistently supported with respect to increasing the level of trade between Eastern and Western Europe should be reconsidered.

9. The principal question around which the report was to be written concerned the degree of integration of the economies of the Soviet Bloc and particularly the extent to which a central plan has been devised for negotiating trade agreements with the West. In the preliminary discussions, CIA stated that the Soviet Bloc was economically integrated. Apart from citing several specific examples of close economic control by the Soviet Union and generally affirming that the Soviet Union is attempting to control the satellite economies, CIA has not demonstrated that a significant measure of economic integration exists in actual fact. Just as in the case of the USSR itself, it

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seems incorrect to assume that the concentration of resources for industrialization in the basic heavy industries is evidence that the course of economic development is being diverted in the satellite plans from a "normal" course by the influence of the Soviet Union. It is sufficient to note that the United Kingdom (with the encouragement of the Government of the United States) is maintaining a stable level of consumption in order to use resources in developing capital investments. On the other hand, in the case of Poland consumers' goods industries have by no means been neglected in economic plans. On page 11 the report actually contradicts the initial statement made by CIA that the Soviet Bloc was highly integrated economically:

"It must be emphasized that many of the aforementioned measures for coordination of the Soviet and Satellite economies have been more apparent than real. No over-all effective control has yet been established. However, the framework and experience for eventual economic integration is gradually being developed in the fields of planning, production, distribution, foreign trade, and economic organization."

10. Integration of the economies of the Soviet Bloc does not mean merely that the Soviet Union exercises influence on their affairs. Such interference in some indeterminate degree is assumed. In order to discuss the idea of integration in a concrete and useful manner, an operational approach might be desirable. For instance, real evidence of economic integration could be obtained if positive answers were available to such questions as the following: Would Poland sacrifice its industrialization goals in order to supply Rumania or Hungary with machinery which the latter require? Would Poland import vitally needed machinery from the West for her own exports and then reexport this machinery to another satellite in exchange for non-essential commodities or no quid pro quo at all?

11. The report as a whole appears to support the following premises: (1) a narrow view of the objectives of the Soviet Bloc's efforts to industrialize; (2) an unsubstantiated belief in close manipulation of the satellite economies by the USSR; and (3) an unsupported belief that the forces of nationalism and economic distress could not be used to weaken the ties or deflect the satellites from their Soviet orbits.

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